

Case Study No 1

Co-operative Purchasing - Local Government

**Co-operative Purchasing Services Ltd - a
co-operative established by local government**

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Co-operative Federation of Victoria Ltd

Co-operative Purchasing Services Ltd (CPS) was registered on 30th October, 1989.

At its formation it was known as the “Municipal Association Co-operative Purchasing Scheme Limited”. It derived its original name from the organisation which hosted it - the Municipal Association of Victoria (MAV) which is the peak body representing local government in Victoria.

The formation was preceded by many months preparation by a steering committee appointed by the MAV, consisting of representatives from a cross section of metropolitan and regional councils. Representatives were chosen because of their known knowledge and ability in the area of purchasing and council administration.

A MAV Legal officer assisted the committee and undertook the preparatory steps necessary for the formation of the Co-operative. The concept was then promoted by MAV to councils and the formation was sponsored by the MAV at its AGM in October, 1989. At that time there were 210 councils and of these, a little over half joined in the first six months, others joined progressively and after about 12 to 18 months a number of Water Authorities, Co-operatives and community groups joined as they became aware of the opportunity to save costs.

The decision to join was administrative (officer level) in some cases and in others presentations were made to council meetings, following which a council decision was made to join.

The MAV hosted the Co-operative for 7 years by providing accommodation, human resources, furniture and equipment on a fee for service basis (full cost recovery).

The MAV could see the benefit of the Scheme and promoted it to its membership. The concept is simple. It is a fact that unity is strength. CPS strength is the collective buying power it has to bargain with when negotiating contracts. The value of purchases made through CPS suppliers grows every year and in 1998/99 was almost \$70m.

By aggregating the buying power of local government better prices, terms and conditions resulted. In effect CPS operates a Supermarket or one-stop-shop with a huge range of goods and services including stationery, office furniture & equipment, motor vehicles, fuel, human resources, to name but a few. However the “supermarket” is merely a catalogue -members place their orders direct with CPS suppliers.

In return for the ready market provided by the Co-operative, suppliers pay the Co-operative a commission based on members transactions. This income is used to cover operational and development costs, any surplus is then returned to members by way of a transaction based bonus, recognising the level of business each member transacts with CPS contracted suppliers.

The major difficulty in developing the scheme was to attract a sufficient membership base with only a concept to offer. A substantial membership base was essential to convince potential suppliers to offer, under contract, better terms and conditions than councils were able to obtain on their own. As the membership list grew it was then important to recruit a substantial catalogue of suppliers of goods and services commonly used by members.

The next challenge was to educate members to change their old buying habits and start using CPS contracted suppliers. A mindset of “we have always done it this way, or purchased from this supplier” had to be changed. This was achieved by telephoning or visiting members and talking with purchasing officers and demonstrating the advantages of membership and using CPS contracted suppliers.

PROFILE

Membership was initially confined to local government, councils paid \$10 for nominal share capital and a \$990 refundable joining fee, i.e. \$1,000 on joining. This was to provide some working capital until the scheme became operational and began to generate income to a level sufficient to cover costs. The \$990 was refunded together with a dividend after the first full year of operation. An annual fee of \$300 was retained until 1995 when it was abandoned due to the fact that the annual dividend/bonus exceeded this amount and this income stream was no longer required to sustain the administration costs.

As the scheme became more widely known throughout local communities applications were soon received from and membership was extended to Water Authorities and many community & charitable organisations. On becoming aware of the Co-operative Federation of Victoria CPS explored the opportunity of extending membership to the Co-operative sector and now has many Co-operatives, including the Federation, as members.

There are currently over 150 organisations taking advantage of the savings available through a product range of 120 different types of goods and services, supported by over 400 suppliers.

The Co-operative is administered by a staff of 5, headed by a General Manager who is supported by a Marketing Manager, a contracts manager and 2 administrative assistants.

Membership is open to local Councils, Water Authorities, State Government Authorities and Co-operatives and community and charitable organisations on payment of \$10 nominal share capital and joining fee as fixed from time to time.

CPS adopted new rules under the 1996 Act which enabled it to significantly broaden membership categories.

The Co-operative is managed by a Board of 7 Directors, elected by Co-operative members. One "Independent" director has been appointed under the Rules who does not represent any member but has a strong background in purchasing, particularly in the local government sector. The Board has appointed 3 of its number to a Finance and Marketing Committee under specific powers of delegation. The Board and Committee meet in alternate months. The Annual General Meeting of members is usually held in mid October.

DEVELOPMENT

Significant milestones and achievements in CPS development have been:

- 1989** Formation achieved in October that year with only a concept to offer
- 1990** June 30 after only a part financial year costs were covered.
- 1991** June 30 achieved a surplus of income over expenditure and distributed \$35,200 back to members in addition to refunding temporary working capital of \$53,000
- 1992** Surplus distribution increased significantly to \$187,150
- 1993** Obtained approval from the Minister for Local Government to operate as an alternative tendering arrangement for Local Government, whereby purchases made by councils through CPS contracts could be included in their "Compulsory Competitive Tendering" (CCT) target figures. This followed massive restructure of local government from 210 to 78 councils. Councils had to put 50% of expenditure through a competitive tendering process. This approval saved 78 councils calling individual tenders for the same goods and services, thus councils saved on advertising and administration costs and suppliers saved the cost of responding to

individual councils, i.e. suppliers respond once to CPS as a central contract agency.

- 1994** Following amalgamations challenge was to retain members in situations of complete change where councillors were replaced by commissioners and new CEO's were appointed. Every new CEO and commissioner was written to and the Chairman was provided with a video and brochure which explained in detail what CPS had to offer. CPS currently has all 78 councils purchasing through its supply contracts.
- 1996** Purchasing Victoria adopted as the new name and it became a direct employer of the staff necessary to administer the Co-operative. Furniture, equipment and other assets owned by the MAV and used by the Co-operative were purchased and Purchasing Victoria clearly demonstrating that it had come of age. The child had left the parent. It had always been a separate legal entity but this had not always been clear to the local government membership - now it was. It was important politically for the Co-operative to be seen as completely self sufficient and not supported by the MAV, another reason for the name change.
- 1997** Distribution of surplus funds back to members, since formation, reached \$789,000.
- 1998** Changed name to Co-operative Purchasing Services Ltd and moved to its own offices, also assisted the formation of a South Australian Co-operative, established to service local government in that State, with the extension of its contracts to their members
- 1999** Developed an interactive web site - www.cps.asn.au and commenced development of a purchasing scheme for Tasmanian local government
- 2000** Received "Co-operative of the Year" award from the Co-operative Federation of Victoria

Established on-line procurement service (CPS Member Market) in partnership with technology provider Exchange Solutions, a subsidiary of WebMatchit Interactive Marketing
- 2001** Achieved widespread interest from councils and Co-operatives following national media coverage of the system launched by the Victorian Minister for Local Government. Progressive loading of supplier catalogue data and images and training of buyers and sellers.

SUCCESS FACTORS

A number of factors have contributed to CPS success - the Co-operative factor CPS exists to serve its members and achieve benefits for them that they could not achieve on their own, irrespective of their nature or size. Even though some members are small, they are still able to buy at the same price as the largest member. Suppliers have regard to the total turnover of all members when submitting their prices.

Effectively on joining the Co-operative a member obtains the value of a purchasing officer, in the form of a catalogue of suppliers which includes full details of product range, contact names and phone/fax numbers for ordering. All a member has to do is phone/fax their order and quote the CPS contract reference and they will make the purchase at the best possible price.

Our catalogue is P C based for IBM Windows operating on stand alone PCs or may be viewed with a browser on the CPS web site. It is also available in hard copy for members who do not have P C's.

There is no doubt that sponsorship by the MAV helped early establishment by giving CPS a credibility, which would otherwise have taken longer to earn. Once established and accepted by local government throughout Victoria CPS had the ability to attract the enormous market which sells to that client base.

As local government is community based - grass roots people government, participation at this level quickly made a range of community based organisations aware of the service and this provided the start of a diversification of membership.

SURVIVING TAKEOVER

The greatest challenge was to survive a takeover attempt by a competitor (company not a co-operative) in the local government market in 1996. The competitor argued that there was economy of scale, big is beautiful, with councils amalgamating to achieve savings a similar result could be achieved by merging the two purchasing schemes.

CPS was able to demonstrate its greater cost effectiveness in terms of net profit to turnover and convince members that local government and other members were in a far better position having a choice, which would be removed with a merger - no more competition. Imagine grocery prices if there was only one supermarket chain to shop at.

A special meeting of shareholders was called in March 1996 to consider a motion proposing a merger but the motion was defeated. An independent review of the CPS operation, following that meeting, by Coopers & Lybrand, commissioned by the CPS Board, clearly established CPS viability and the fact that the market could sustain two schemes.

The lesson to be learnt from such a challenge is to know your competitor and their marketing strategies. Be seen in the market place and respond to any attack or criticism in a positive way. Promote the scheme and its co-operative principles. Identify the target audience - decision makers and ensure they receive regular contact and promotional material so that they know you are alive and well.

To maximise potential CPS found it important to communicate with members to ensure the persons with the purchasing responsibility are aware of the potential savings. It is equally important to communicate with suppliers to ensure they are marketing themselves to best advantage and utilising the promotional options available to them via the CPS monthly hard copy news bulletin, the catalogue bulletin board, the CPS web site links and a regular local government management journal.

A GOOD TEAM

The most important element of success is to have a good team running the co-operative. It is important to have a Board of Directors with an understanding and interest in the core business and able to contribute ideas on process. It is important to have suitably qualified and dedicated staff to implement Board policy and carry out the day to day administration. It is also essential that there is a good relationship based on trust and understanding between the Board and staff - they must see themselves collectively as a team, each with their key positions but united with a common goal of achieving the Co-operative's objectives.

With continuing changes in legislation and the way in which councils are empowered to do business, there is always a threat that the level of business in that sector can diminish. CPS must continue to diversify and expand its membership and will continue to do this in the Co-operative sector, not only in Victoria but nationally.

Through recognition of established expertise CPS has been approached to provide consulting services to other organisations with significant memberships, which desire to provide "buying scheme" service benefits to their members. This provides

another income stream and profits generated will be included in our overall income, the surplus of which will be returned to our members as in the past.

During 1998 new rules were adopted under the new 1996 Act. Registration as a business with ASIC was undertaken to enable interstate business to be transacted in States which are yet to adopt the new legislation allowing co-operatives to register as a Foreign Co-operative in another State.

CPS registered as a foreign Co-operative in South Australia and assisted in the formation of a South Australian Co-operative, established to service local government in that State, with the extension of its contracts to their members. In late 2000 the SA Co-operative determined to wind up and is being replaced by eCouncils.Com. A number of SA councils continue to use CPS contracts. The CPS Member Market was launched in Adelaide in May 2001 and received good reviews.

In early 1998 CPS commenced a partnership with the Local Government Association of Tasmania for provision of a purchasing scheme to local government in that State. CPS has applied for registration as a foreign Co-operative in that State and launched the Member Market there in February 2001.

In 2001 CPS applied for registration as a foreign Co-operative in NSW and NT. The Local Government Association of Northern Territory has agreed to partner with CPS to provide access to the Member Market to every Council in the NT.

In mid 1998 the MAV decided to sell its building and move into Melbourne CBD. CPS took this opportunity to re-launch itself in conjunction with a move to new premises. A new name was approved at the October AGM and subsequently registered as Co-operative Purchasing Services Ltd, which more readily defines what the Co-operative does. A new logo was developed incorporating a pyramid and the three initials of the name - CPS which also expands to the footer on our correspondence - Competitive Products and Services, which is what we aim to provide.

REBORN CPS

In October 1998 the reborn child CPS came of age and clearly left its parent, MAV, with a physical move to new offices in Wantirna South, opposite Knox City Shopping Centre.

In December 1998 CPS entered a partnership with Telstra for the development of an interactive web site. The first priority was the development of a business solution to deal with the periodic tender program that placed significant demands on the limited CPS human resources.

An on-line tender system was developed. Tenders were advertised in the daily papers and interested suppliers were directed to CPS web site to obtain further information. Contract details were displayed on the web site and interested persons could purchase the tender specification and response form using the Telstra secure eCommerce facility, which was integrated with the tender process web function.

With up to 50 contracts advertised at the one time and countless inquiries on each, the high volume of traffic which used to call at the office, did their business on line. CPS achieved significant savings in staff time, hard copy production costs and postage. Tender response by email was also provided.

The CPS web site provides for a range of interactive functions to enable business to be transacted with both members and suppliers. Development will be ongoing.

CPS was recognised for its achievements at the AGM of the Co-operative Federation of Victoria in February 2000, with the presentation of the "Co-operative of the Year award.

e-COMMERCE

The CPS Member Market will enable members to have access to a growing range of services including

- a complete catalogue system,
- an on-line auction system (for purchase and disposal)
- an on-line tender system,
- a request for quotation (RFQ) platform
- Easy integration with financial administration systems, so records are created once (at purchase order)
- Non prescriptive - user's own business rules (purchase authority etc.)
- Compliance with a range of protocols including OBI, EDI, XML, CXML

LOCAL BUSINESS EXPANSION OBJECTIVE

In addition to converting contracted suppliers to the CPS Member Market, CPS commenced working progressively with each Council to assist the local businesses they trade with to become e-Commerce enabled and participate in the Market. This policy will assist Councils to streamline their procurement process and at the same time open a national market opportunity to many small businesses.

Directors and staff are confident of a promising future and ability to maintain viability in the market place by continuing to provide its members with Competitive Products and Services.

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